The Fiscal Monitor

A Publication of the Department of Finance

Highlights

February 2008: budgetary surplus of $2.9 billion

There was a budgetary surplus of $2.9 billion in February 2008, compared to a surplus of $4.7 billion in February 2007. Budgetary revenues were down $0.1 billion, or 0.5 per cent, due to lower corporate income tax, goods and services tax (GST) and Employment Insurance (EI) premium revenues. Program expenses increased by $1.7 billion, or 11.0 per cent, reflecting higher transfer payments and operating expenses of departments and agencies. Public debt charges decreased by $0.1 billion.

April 2007 to February 2008: budgetary surplus of $10.4 billion after cost of measures

For the first 11 months of the 2007–08 fiscal year, the budgetary surplus is estimated at $12.9 billion, down $2.4 billion from the $15.3-billion surplus reported in the same period of 2006–07. Budgetary revenues increased by $9.6 billion, or 4.5 per cent, driven by gains in income tax and other revenues. The results to date reflect the impact of tax relief measures introduced in the October 2007 Economic Statement. These measures consist of the 1-percentage-point reduction in the GST rate effective January 1, 2008, and the reduction in the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to $9,600, both retroactive to January 1, 2007. Program expenses were up $12.5 billion, or 7.6 per cent, due to higher transfer payments and operating expenses of departments and agencies. Public debt charges were down $0.5 billion, reflecting reductions in market debt.

The monthly results through February do not reflect $2.5 billion in 2007–08 measures announced earlier this year, including the Community Development Trust, the Public Transit Capital Trust 2008 and the Police Officers Recruitment Fund. The cost of these measures will be reflected in March and the end-of-year supplementary period. Deducting the cost of these measures from the $12.9-billion year-to-date surplus would yield a surplus of $10.4 billion.

April 2007 to February 2008 budgetary surplus after cost of measures

	($ billions)
April-February budgetary surplus	12.9
Less: Announced 2007–08 initiatives not yet recognized in *The Fiscal Monitor*	
Community Development Trust	1.0
Public Transit Capital Trust 2008	0.5
Police Officers Recruitment Fund	0.4
Carbon sequestration	0.3
Mental health and housing	0.1
Genome Canada	0.1
Other	0.1
	2.5
April-February budgetary surplus after cost of measures	10.4

The Fiscal Monitor

February 2008

There was a budgetary surplus of $2.9 billion in February 2008, compared to a $4.7-billion surplus in February 2007.

Budgetary revenues fell $0.1 billion, or 0.5 per cent, to $22.8 billion.

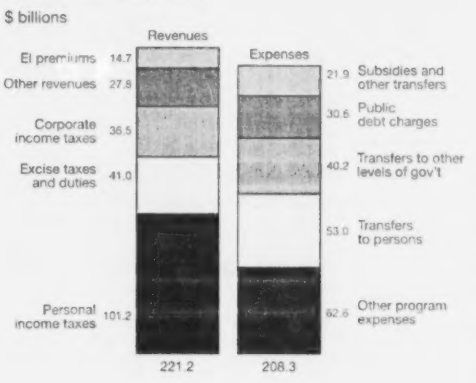
- Personal income tax revenues rose $0.8 billion, or 8.7 per cent, as solid growth in wages and employment more than offset the tax relief introduced in the October 2007 Economic Statement.
- Corporate income tax revenues were down $0.9 billion, or 13.4 per cent, reflecting lower year-end settlement payments than were recorded last year. As indicated in previous months in *The Fiscal Monitor*, this decline is consistent with expectations and largely reflects the fact that many corporations on average underpaid their tax liabilities during the first part of last fiscal year, but then made significant settlement payments in the last two months of the fiscal year, particularly in February 2007.
- Other income tax revenues—withholdings from non-residents—were virtually unchanged, increasing $1 million or 0.2 per cent.
- Excise taxes and duties were down $0.4 billion, or 11.9 per cent, largely due to lower GST revenues. GST revenues declined by $0.4 billion, or 19.1 per cent, as a result of the 1-percentage-point reduction in the GST rate to 5 per cent effective January 1, 2008. Customs import duties decreased by $40 million, sales and excise tax revenues increased by $59 million and revenues from the Air Travellers Security Charge increased by $5 million.
- EI premium revenues were down 9.4 per cent, reflecting the decline in the premium rate from $1.80 to $1.73 per $100 of insurable earnings effective January 1, 2008, as well as a one-time adjustment that lowered February 2008 premium revenues relative to those recorded in February 2007.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, rose $0.6 billion, or 33.5 per cent.

Program expenses in February 2008 were $17.2 billion, up $1.7 billion or 11.0 per cent from February 2007, reflecting higher transfer payments and operating expenses of departments and agencies.

Transfer payments were up $1.0 billion, or 9.7 per cent.

- Major transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, increased by 0.7 per cent. Elderly benefits increased by 4.2 per cent while EI benefits decreased by 5.2 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), remained stable.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up $0.3 billion, or 10.3 per cent, reflecting Budget 2007 measures.

Revenues and expenses
(April 2007 to February 2008)



- Subsidies and other transfers were up $0.6 billion, or 33.7 per cent, due in part to an increase of $259 million related to the extension of the Veterans Independence Program announced in Budget 2008.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses rose $0.7 billion, or 13.6 per cent.

Public debt charges decreased by $0.1 billion, or 2.5 per cent.

April 2007 to February 2008

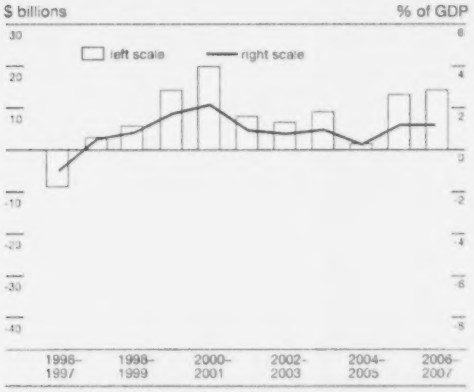
For the first 11 months of the 2007–08 fiscal year, there was a budgetary surplus of $12.9 billion, down $2.4 billion from the $15.3-billion surplus reported during the same period of 2006–07.

Budgetary revenues increased by $9.6 billion, or 4.5 per cent, to $221.2 billion.

- Personal income tax revenues increased by $0.9 billion, or 0.9 per cent, reflecting $3.3 billion in tax relief measures announced in the October 2007 Economic Statement.
- Corporate income tax revenues were up $4.7 billion, or 14.6 per cent.
- Other income tax revenues rose $0.2 billion, or 3.0 per cent.
- Excise taxes and duties declined by $0.1 billion, or 0.1 per cent. GST revenues decreased by $0.1 billion, or 0.3 per cent. Customs import duties increased by $0.2 billion, sales and excise tax revenues were down $0.2 billion, and revenues from the Air Travellers Security Charge increased by $30 million.
- EI premium revenues were down $0.3 billion, or 2.2 per cent, reflecting the declines in the premium rate to $1.80 per $100 of insurable earnings effective January 1, 2007, and to $1.73 effective January 1, 2008.
- Other revenues rose $4.3 billion, or 23.3 per cent, boosted by a gain from the sale of seven federal office properties in 2007. The increase also reflects higher receipts under the Atlantic Offshore Revenue Accounts, due to strong growth in offshore production and oil prices to date in 2007–08. This revenue is transferred to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords, such that there is no net impact on the budgetary balance.

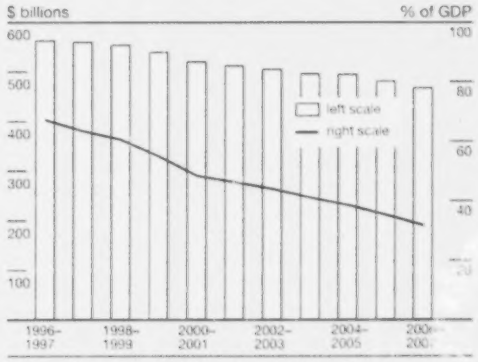
Program expenses for April 2007 to February 2008 were $177.7 billion, up $12.5 billion or 7.6 per cent from the same period of 2006–07, reflecting an increase in transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Transfer payments increased $8.1 billion, or 7.6 per cent.

- Major transfers to persons were up $2.0 billion, or 3.9 per cent. Elderly benefits increased by 4.5 per cent and EI benefits by 0.7 per cent. Children's benefits were up $0.6 billion, as transfers under the UCCB began part way through the 2006–07 fiscal year, in July 2006.
- Major transfers to other levels of government were up $3.2 billion, or 8.8 per cent, reflecting legislated growth in the Canada Health Transfer, as well as increases to the Canada Social Transfer and Equalization introduced in Budget 2007 as part of the Government's package to restore fiscal balance in Canada.
- Subsidies and other transfers were up $2.9 billion, or 15.3 per cent, mainly reflecting increases in payments related to the historic investment in infrastructure announced in Budget 2007 and higher transfers to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords.

Other program expenses increased by $4.4 billion, or 7.5 per cent.

Public debt charges decreased by $0.5 billion, or 1.5 per cent, largely reflecting lower unmatured debt levels.

Financial source of $15.7 billion for April 2007 to February 2008

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of $12.9 billion and a source of $2.8 billion from non-budgetary transactions, there was a financial source of $15.7 billion for April 2007 to February 2008, compared to a financial source of $8.4 billion in the same period of 2006–07.

Net financing activities down $31.9 billion

The Government used this financial source of $15.7 billion and a reduction in its cash balances of $16.2 billion to reduce its market debt by $31.9 billion by the end of February 2008. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Amendments made to the *Financial Administration Act* in 2007 regarding the Government's borrowing authority, which provide increased flexibility to meet financial requirements, along with the more frequent use of short-dated borrowing instruments, will facilitate carrying lower cash balances at fiscal year-end. Cash balances at the end of February 2008 stood at $5.0 billion, $3.9 billion below their level at the end of February 2007.

Table 1
Summary statement of transactions

	February		April to February	
	2007	2008	2006–07	2007–08
	($ millions)			
Budgetary transactions				
Revenues	22,911	22,792	211,535	221,155
Expenses				
Program expenses	-15,502	-17,213	-165,213	-177,703
Public debt charges	-2,718	-2,649	-31,030	-30,561
Budgetary balance (deficit/surplus)	4,691	2,930	15,292	12,891
Non-budgetary transactions	-2,630	-2,167	-6,884	2,818
Financial source/requirement	2,061	763	8,408	15,709
Net change in financing activities	3,280	220	-17,445	-31,909
Net change in cash balances	5,341	983	-9,037	-16,200
Cash balance at end of period			8,920	5,003

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	February			April to February		
	2007	2008	Change	2006–07	2007–08	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	8,742	9,504	8.7	100,243	101,186	0.9
Corporate income tax	6,466	5,597	-13.4	31,827	36,479	14.6
Other income tax	461	462	0.2	5,142	5,295	3.0
Total income tax	15,669	15,563	-0.7	137,212	142,960	4.2
Excise taxes and duties						
Goods and services tax	2,134	1,727	-19.1	28,185	28,110	-0.3
Customs import duties	353	313	-11.3	3,310	3,542	7.0
Sales and excise taxes	707	766	8.3	9,212	8,964	-2.7
Air Travellers Security Charge	31	36	16.1	326	356	9.2
Total excise taxes and duties	3,225	2,842	-11.9	41,033	40,972	-0.1
Total tax revenues	18,894	18,405	-2.6	178,245	183,932	3.2
Employment Insurance premiums	2,273	2,059	-9.4	15,007	14,681	-2.2
Other revenues	1,744	2,328	33.5	18,283	22,542	23.3
Total budgetary revenues	22,911	22,792	-0.5	211,535	221,155	4.5

Note: Totals may not add due to rounding.

Table 3

Budgetary expenses

	February			April to February		
	2007	2008	Change	2006-07	2007-08	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,591	2,700	4.2	27,926	29,179	4.5
Employment Insurance benefits	1,421	1,347	-5.2	12,809	12,896	0.7
Children's benefits	962	960	-0.2	10,265	10,912	6.3
Total	4,974	5,007	0.7	51,000	52,987	3.9
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,679	1,799	7.1	18,462	19,668	6.5
Canada Social Transfer	709	831	17.2	7,792	9,011	15.6
Total	2,388	2,630	10.1	26,254	28,679	9.2
Fiscal transfers	1,126	1,267	12.5	12,217	13,565	11.0
Canada's cities and communities	31	12	-61.3	579	748	29.2
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-226	-248	9.7	-2,734	-2,778	1.6
Total	3,319	3,661	10.3	36,966	40,214	8.8
Subsidies and other transfers						
Agriculture and Agri-Food	159	226	42.1	2,416	2,148	-11.1
Foreign Affairs and International Trade	289	430	48.8	2,699	2,512	-6.9
Health	131	135	3.1	1,734	1,845	6.4
Human Resources and Social Development	126	134	6.3	1,509	1,638	8.5
Indian Affairs and Northern Development	317	342	7.9	4,246	4,402	3.7
Industry	194	165	-14.9	1,859	1,755	-5.6
Other	552	932	68.8	4,540	7,601	67.4
Total	1,768	2,364	33.7	19,003	21,901	15.3
Total transfer payments	10,061	11,032	9.7	106,969	115,102	7.6
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	72	59	-18.1	1,114	1,045	-6.2
Canada Mortgage and Housing Corporation	177	165	-6.8	1,892	1,849	-2.3
Other	223	304	36.3	3,095	3,573	15.4
Total	472	528	11.9	6,101	6,467	6.0
Defence	1,345	1,614	20.0	14,394	16,062	11.6
All other departments and agencies	3,624	4,039	11.5	37,749	40,070	6.1
Total other program expenses	5,441	6,181	13.6	58,244	62,599	7.5
Total program expenses	15,502	17,213	11.0	165,213	177,703	7.6
Public debt charges	2,718	2,649	-2.5	31,030	30,561	-1.5
Total budgetary expenses	18,220	19,862	9.0	196,243	208,264	6.1

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	February		April to February	
	2007	2008	2006–07	2007–08
	($ millions)			
Budgetary balance (deficit/surplus)	4,691	2,930	15,292	12,891
Non-budgetary transactions				
Capital investing activities	-447	-226	-2,196	-2,054
Other investing activities	-2	-1,499	-976	-4,578
Pension and other accounts	612	1,510	4,308	5,545
Other activities				
Accounts payable, receivables, accruals and allowances	-3,100	-1,742	-10,509	-1,393
Foreign exchange activities	-22	-430	-304	3,190
Amortization of tangible capital assets	329	220	2,793	2,108
Total other activities	-2,793	-1,952	-8,020	3,905
Total non-budgetary transactions	-2,630	-2,167	-6,884	2,818
Net financial source/requirement	2,061	763	8,408	15,709

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	February		April to February	
	2007	2008	2006–07	2007–08
	($ millions)			
Net financial source/requirement	2,061	763	8,408	15,709
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-1,253	3,942	-4,221	-3,348
Treasury bills	5,000	-3,400	-7,600	-23,200
Canada Savings Bonds	-132	-113	-2,083	-2,070
Other	-13	0	-1,173	-699
Total	3,602	429	-15,077	-29,317
Foreign currency borrowings	-287	31	-3,718	-844
Total	3,315	460	-18,795	-30,161
Cross-currency swap revaluation	43	-257	1,474	-2,490
Unamortized discounts on debt issues	-75	3	-46	319
Obligations related to capital leases	-3	14	-78	423
Net change in financing activities	3,280	220	-17,445	-31,909
Change in cash balance	5,341	983	-9,037	-16,200

Note: Totals may not add due to rounding.

Table 6

Condensed statement of assets and liabilities

	March 31, 2007	February 29, 2008	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	106,511	106,955	444
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	254,134	-3,348
Treasury bills	134,074	110,874	-23,200
Canada Savings Bonds	15,175	13,105	-2,070
Other	1,743	1,044	-699
Subtotal	408,474	379,157	-29,317
Payable in foreign currencies	10,372	9,528	-844
Cross-currency swap revaluation account	-1,091	-3,581	-2,490
Unamortized discounts and premiums on market debt	-6,659	-6,340	319
Obligations related to capital leases	3,096	3,519	423
Total unmatured debt	414,192	382,283	-31,909
Pension and other accounts			
Public sector pensions	134,726	137,315	2,589
Other employee and veteran future benefits	45,123	47,543	2,420
Other pension and other accounts	5,211	5,747	536
Total pension and other accounts	185,060	190,605	5,545
Total interest-bearing debt	599,252	572,888	-26,364
Total liabilities	705,763	679,843	-25,920
Financial assets			
Cash and accounts receivable	92,586	78,222	-14,364
Foreign exchange accounts	44,178	40,988	-3,190
Loans, investments and advances (net of allowances)	45,094	49,672	4,578
Total financial assets	181,858	168,883	-12,975
Net debt	523,905	510,961	-12,945
Non-financial assets	56,637	56,583	-54
Federal debt (accumulated deficit)	467,268	454,378	-12,891

Note: Totals may not add due to rounding.

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April 2008